

# City of Detroit

## CITY COUNCIL

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TO: Pam Scales, Director  
Budget Department (Non-Departmental)

FROM: Irvin Corley, Jr., Fiscal Analysis Director

DATE: April 26, 2010

RE: 2010-2011 Budget Analysis

24.

Attached is our budget analysis regarding the Non-Departmental/Capital budget for the upcoming 2010-11 Fiscal Year.

Please be prepared to respond to the issues/questions raised in our analysis during your scheduled hearing on **Friday, April 30, 2010 at 1:00 p.m.** We would then appreciate a written response to the issues/questions at your earliest convenience subsequent to your budget hearing. Please forward a copy of your responses to the Council Members and the City Clerk's Office.

Please contact us if you have any questions regarding our budget analysis.

Thank you for your cooperation in this matter.

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Attachment

cc: Council Members  
Council Divisions  
Auditor General's Office  
Norman White, Chief Financial Officer  
Tom Lijana, Finance Director  
Pam Scales, Budget Department  
Renee Short, Budget Department  
Kamau Marable, Mayor's Office

## **Non-Departmental (35)**

### **FY 2010-11 Budget Analysis by the Fiscal Analysis Division**

#### **Summary**

#### **Appropriations**

The Non-Departmental agency contains appropriations and revenues for the general fund not specific to any one department. The Non-Departmental agency budget appropriates subsidies to various organizations.

The Non-Departmental agency includes funding for a number of organizational units including positions and subsidies to enterprise agencies.

Also included in Non-Departmental are appropriations offset with equal revenue amounts for organizations whose employees are included and paid through the city payroll system such as the Greater Detroit Resource Recovery Authority (transferred to the Department of Public Works in recommendation) and the Detroit Building Authority.

Over the years and on an increasing basis, programs with employees have been added to the Non-Departmental budget. In the 2010-11 Recommended Budget positions for the Greater Detroit Resource Recovery Authority are transferred out of Non-Departmental, while Public Communication and Total Copy Center positions are being added. When programs with employees are included in Non-Departmental the real line of reporting is blurred in fact completely hidden by the presentation. This allows the administration to obfuscate the number of employees in executive organizations. Consideration should be given to the re-alignment of these organizations into the agencies where the employees ultimately report.

The total appropriations in Non-Departmental are decreasing by \$229.6 million, a 38.9% decrease, from \$590.8 million to \$361.3 million.

#### **Revenues**

The Non-Departmental agency contains the major revenues supporting the General Fund that are not specific to any one department.

The recommended budget includes estimated revenues of \$1.07 billion, which is a \$271.8 million decrease from the current year's budgeted revenue in Non-Departmental, a 20.2% decrease.

The preliminary review of major revenues indicates the potential to collect the estimated revenues if the local economy levels off. If the local economy continues to decline there is the potential that the estimated revenues will be difficult to collect and mid-year adjustments will be required to maintain a balanced budget. At this point there is no indication that it would be advisable to increase the estimated revenues in the 2010-11 Mayor's Recommended Budget.

### 2009-10 Surplus/(Deficit)

The 2009-10 surplus/deficit estimates submitted by the Budget Department staff indicates a \$2.9 million appropriation surplus, and a \$77.6 million revenue deficit, for a net deficit of \$74.8 million in the Non-Departmental agency. The deficit is attributed to shortfall in major revenue collections according to the Budget Department's analysis.

### Personnel and Turnover Savings

Following is information by appropriation comparing budgeted FY 2009-10 positions, March 31, 2009 filled positions and FY 2010-11 recommended positions.

<u>Appropriation/Program</u>	<u>Redbook Positions FY 2009- 10</u>	<u>Filled Positions 3/31/2010</u>	<u>Mayor's Budget Positions FY 2010- 11</u>	<u>Over/(Under) Actual to 09/10 Budget</u>	<u>Mayor's Recommended Turnover</u>
<b>Non-Departmental (35):</b>					
<b>00276 Greater Detroit Resource Recov. Autho.</b>	11	5	0	(6)	\$ -
<b>00277 Detroit Building Authority</b>	9	9	9	0	\$ -
<b>00972 Cable Communications Comm.</b>	5	3	0	(2)	\$ -
<b>00973 Government Access</b>	2	2	0	0	\$ -
<b>10397 Board of Ethics</b>	2	5	2	3	
<b>350325 Communication Services</b>	0	0	8	0	
<b>350326 Media Services</b>	0	0	7	0	
<b>TOTAL</b>	<b><u>29</u></b>	<b><u>24</u></b>	<b><u>26</u></b>	<b><u>(5)</u></b>	<b><u>\$ -</u></b>

The Mayor's 2010-11 Recommended Budget does not include any turnover savings for positions included in the Non-Departmental budget.

### Budgeted Professional and Contractual Services by Activity

#### **Non-Departmental (35)**

<u>Budgeted Professional and Contractual Services by Activity</u>	<u>FY 2009-10 Budget</u>	<u>FY 2010-11 Recommended</u>	<u>Increase (Decrease)</u>
Non-Departmental	\$ 108,046	\$ 69,209	\$ (38,837)
Board of Ethics	-	-	-
Communication Services	733,788	522,287	(211,501)
Detroit Building Authority	-	-	-
Greater Detroit Resource Recovery	-	-	-
DHRMS	-	-	-
Contributions, Subsidies & Advances	<u>250,000</u>	<u>250,000</u>	-

<b>Total</b>	<b><u>\$ 1,091,834</u></b>	<b><u>\$ 841,496</u></b>	<b><u>\$ (250,338)</u></b>
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Appropriation Explanation and Significant Funding Changes by Appropriation

Appro.   Program

00199	Public Commemorations	This \$3,000 appropriation provides the funding for the purchase of flags for placement on Veteran's graves by veteran organizations on Memorial Day.
00204	Organization For Cities	<p>This appropriation is decreasing by \$75,115. This appropriation includes dues and memberships in the City's name to the some or all of the following organizations. The amounts in brackets represents current year transactions to date:</p> <p>SEMCOG (\$29,174),  Government Finance Officers Association (\$3,050),  Woodward Avenue Action Association (\$13,500)  SESAC Inc. (\$3,873)  BMI (\$6,419.70)  American Society of Composers (\$6,712.50)  Motion Picture License Certificate (\$3,957)  Music License Agreement (\$6,632)</p> <p>In past years dues to the following organizations have been recorded against this appropriation:</p> <p>Michigan Municipal League  U.S. Conference of Mayors,  National League of Cities,  Conference of Black Mayors  International Great Lake/St. Lawrence Conference  Recreation MPLC – Licensing Certification (\$)  Recreation ASCP Government Licensing (\$)</p>
00276	Greater Detroit Resource Recovery Authority (GDRRA)	The appropriation for GDRRA is being eliminated from the Non-Departmental appropriations and move to the Department of Public Works, Solid Waste Fund.
00277	Detroit Building Authority (DBA)	The appropriation for the DBA is increasing by \$53,166. There is an estimated revenue amount from the DBA in an equal amount to offset this appropriation. The appropriation and estimated revenue accounts represent the pass through of the DBA payroll on the City books.

00341 Tax Support –  
DOT

The appropriation provides the general fund support necessary for the Department of Transportation to conduct operations. The subsidy to Department of Transportation (DOT) is decreasing by \$24.8 million, or 31.0%.

If in fact, the Department of Transportation can operate on this reduced subsidy, the current recommendation conforms with previous recommendations that subsidies to enterprise agencies be reduced and phased out. The continuation of general tax dollars in support of operations that as enterprise funds should be self-sufficient warrants review. If the total subsidy cannot be eliminated all at once, the agency should be put on notice that the subsidy will be eliminated over a manageable timetable, possibly 3 years.

Another strategic alternative to consider for DOT would be an agreement for the consolidation of transportation systems in the region. A goal that recently has been overshadowed by other issues, but needs to be brought to the forefront by the City of Detroit, possibly as part of the rapid transit initiative and or Federal Stimulus funding. This would relieve the City of Detroit from the direct financial drain of \$55 - \$80 million or more annually that DOT has become on general tax dollars.

00347    Airport Subsidy    The appropriation is decreasing by \$581,468 to \$208,887. This is a 73.69% decrease in the subsidy.

This reduced level of subsidy for the Airport is dependent on the Administration successfully bringing forward for Council approval an operating agreement with an outside vendor for the Airport. For the past few years it has been promised that an operator can be found to operate the facility at a profit, but the promise remains unfulfilled. Within the last year or two, a major planned operational transfer to a private operator collapsed in Chicago for the operation of Midway Airport. The agreement fell apart due the inability of the operating consortium to obtain financing.

Should an operating agreement not be forthcoming for operation of the Airport, the direct benefits or even indirect, if any, to the citizens of Detroit compared to the on going subsidy (including allocation of capital) required by the Airport, makes this a luxury that the City may not be able to afford any longer. Can the airport be considered a core service?

It may be the time to plan an orderly closing of the Airport considering potential alternate development options for the land.

In March 2003 Chicago, without approval from the FAA, discontinued the operations of Meigs Airport within their city.

00396    World Trade Program    This appropriation is for the City portion of the cost of the Detroit Port Authority operations. The cost of the Detroit Port Authority is shared by the State of Michigan, Wayne County and the City. The amount of the appropriation remains the same as previous years.

00362    Tax Increment Districts    The appropriation represents the amount of captured taxes for these special districts and is used to allow the taxes collected by the City to be paid to the various increment districts. The appropriation is decreasing by \$2.3 million, a 16.1 decrease. The decrease is a factor of the change in valuation in the various districts and applicable tax rate.

00852	Claims Fund (Insurance Premium)	<p>This appropriation is decreasing by \$8.8 million.</p> <p>The appropriation represents the General Fund portion of funding for the Self-Insurance Claim Fund. When originally established a five-year history of claims payouts was used to determine the required annual contribution. Over the last few years the administration has been reducing the amount contributed to the fund. Preliminary discussions indicate that the Administration is returning to the five-year history of claims payment analysis in order to adequately fund the claims operation.</p>
00444	Prior Year's Deficit	<p>This appropriation is required by charter and state statute and should reflect the total of the prior year's deficit that must be financed in the recommended budget. The amount of the appropriation should include both the known deficit and an estimated amount through the end of the current fiscal year. The appropriation is decreasing from \$280 million in the current year to \$85.5 million in the recommended budget, or a \$194.5 million reduction. The Administration's calculation of this appropriation includes the \$219.2 (June 30, 2008 accumulated unreserved undesignated deficit per the Comprehensive Annual Financial Report), \$112.0 million, (estimated deficit from FY 08-09), \$4.3 (estimated deficit from FY 09-10), for a total \$335.5 million deficit that is reduced by the \$250 million fiscal stabilization bond proceeds, or the recommended \$85.5 million.</p>
00664	City-County Building Rent and Rehabilitation	<p>This appropriation has not been included in the budget for a few years as all space rental and rehabilitation costs have been allocated to individual departments. The reappearance of the appropriation would indicate either unallocated space in the building or rehab costs of space.</p>
00844	Charter Revision Commission	<p>The appropriation for the Charter Revision Commission is increasing by 200%, from \$250,000 in the current budget to \$750,000 in the recommended budget.</p>
00972	Cable Communications Commission	<p>The appropriation is being eliminated in the recommended budget. The recommended budget is combining the cost and structure of the Cable Communication Commission with media services and copy center costs from the Information Technology Services agency into a new appropriation, 13125 Communication and Media Services in Non-Departmental.</p>

00973	Government Access	The appropriation is being eliminated in the recommended budget. The recommended budget is combining the cost and structure of the Cable Communication Commission with media services and copy center costs from the Information Technology Services agency into a new appropriation, 13125 Communication and Media Services in Non-Departmental.
04739	General Revenue – Non-Departmental	In the current year the appropriation provides for the payment of interest on income tax refunds not processed in the allowed period of time. This appropriation is recommended as zero, as the amount for interest payment on income tax refunds is being recommended as part of the Finance Department, Income Tax Division 2010-11 budget.
13125	Communication and Media Services	This new appropriation is combining all or parts of appropriations in Non-Departmental (Cable Communications Commission, Government Access) and the Information Technology Services Department (Central Data Processing). The Administration's recommendation is to combine the cable, communications and media services into one appropriation. Consideration should be given to placing this function in an operating department that provides services to all agencies, rather than combining them in Non-Departmental in order to clarify to whom this activity employees report to.
05414	Museum of African-American History	This appropriation of \$1.95 million represents a subsidy to the museum for operational costs (salaries, contractual services, marketing and public relations). The Mayor's Recommended Budget decreases this appropriation by \$557,500, or 22.20%.
10633	Internal Service Fund-Vehicles (Internal Service Fund)	<p>The appropriation in the Internal Service Fund - Vehicles is remaining at zero. This appropriation equals the amount of vehicles to be purchased by the fund during the year. The appropriation would be supported by the revenue from the sale of bonds to finance the purchase of the vehicle.</p> <p>The recommendation not to fund this appropriation indicates the administration's plan to not purchase new vehicles in the next fiscal year.</p> <p>This is the second year of not funding this appropriation.</p>
10634	City Vehicles – Lease Purchase (General Fund)	The appropriation in the General Fund of \$2.5 million is equal to the amount in the current budget. The appropriation allows the payment, as a lease, to the Internal Service Fund for vehicles previously purchased by the fund and financed with bonds that are currently being used for operations.



12370	Internal Service Fund-Vehicle Debt Service (Internal Service Fund)	The appropriation in the Internal Service Fund for vehicles makes the payment of the principal and interest on bonds previously issued by the internal service fund for vehicles purchases. This appropriation ties directly to the general fund appropriation 10634.
11177	DHRMS (Previously Program Management Office)	The appropriation in the current budget of \$8.0 million represents the debt service on the GE capital financing of the project. The payment in the current year appears to complete the repayment of the GE capital financing for the project.
11519	Fiscal Stabilization Bond Expense	The appropriation includes the interest and principal on the \$250 million fiscal stabilization bonds sold during the 2009-10 year to address the accumulated deficit. The amount of the 2010-11 appropriation is \$14.1 million and a similar amount will be required for the next 24 years in order to pay off the bonds.
12161	Zoo Operations	The recommended appropriation for the operation of the Zoological Park at \$765,000 remains the same as the current year. Considering the ability of the Zoo to collect dedicated taxes for the operation of the Zoo, a reduction (at least 10%) or elimination of this amount could be considered. This may require an amendment to the operating agreement.
12162	Historical Operations	The recommended appropriation for the operation of the Historical Museums locations remains unchanged from the current year at \$450,000. Consideration for at least a 10% reduction in this subsidy could be considered.
12897	DIA Operations Subsidy	This appropriation, which was added in the current budget as a subsidy to the Detroit Institute of Arts remains at the same level of \$500,000. Consideration of 10% reduction at a minimum, or the elimination of the subsidy in total could be considered. Perhaps an increase to admission fees could replace the subsidy.

12949    POC Transaction    This appropriation is applied to the Pension Obligation Certificate, related Interest Rate Swap Agreement and Interest Swap Termination Agreement transactions and has an almost equal (\$20,000 trustee fee difference) and offsetting amount on the revenue side. The specific appropriation is being required as a result of the agreement resolving the interest rate SWAP termination related to the Pension Obligation Certificate (POC) transaction. The requirement results in a double counting of the expense offset by the new revenue, and increases the transparency of the payment to individuals and investors outside of the City, who are not familiar with how the City allocates the pension factors against the payroll.

In the current and previous budgets the allocation of the cost of the POC's principal and interest payment, was allocated to each payroll account by way of the pension factor. Payment of the principal and interest payment was made from the balance sheet accounts that captured the results of the pension factor as each payroll was processed when the payment was due, and appropriate year ending entries reconciled the budget and balance sheet accounts.

A requirement of the interest rate SWAP termination event negotiations is that a specific appropriation must be made in each year's budget to represent the payment of principal, interest, and the SWAP termination agreement related to the POC's.

The flow of the pension factor will now include the collection of the estimated revenue in Non-Departmental in this appropriation along with the recording of the payment against this appropriation.

The amount allocated throughout the budget against payroll accounts for this payment is \$93.6 million, while the requirement is \$96.2 million. The allocation is therefore \$2.6 million underfunded and an adjustment should be proposed by the Administration to correct this funding issue.

12226    Interest Short-Term Borrowing RAN/TAN    The recommended appropriation is reduced by \$5.0 million from \$7.7 million to \$2.7 million. The recommended amount represents the required payment during 2010-11 for short-term borrowing during the 2009-10 fiscal year. This short term borrowing took place prior to the \$250 million sale of fiscal stabilization bonds to meet cash flow requirements.

## **Significant Revenue Changes by Appropriation and Source**

<b><u>Appro.</u></b>	<b><u>Program</u></b>	
04739 401110 401150	General Revenue Property Tax, including Uncollectible Property Tax	The projected revenue of \$147.3 million for the 2010-11 net property tax collections reflects a \$20.4 million reduction from the current budget. This is a 12.25% decrease from the current year budget. The ad valorem taxable value of property has decrease by 6.5%, when special acts tax rolls are included in the analysis the percentage reduction is 5.4%. The collection factor based on prior year's experience in the recommendation is 88%. This represents a reduction of 8% in the collection factor for the current budget that was 96%.
402100	Prior Years Real Prop. Tax	The revenue account is decreasing by \$300,000 to a total of \$500,000. This is a 37.5% reduction.
402200	Prior Years Pers. Prop. Tax	The estimated collection in the account is remaining at the same level of \$100,000.
404100	Municipal Income Tax	The decrease of \$30.0 million brings the projected revenue for income tax to \$215.0 million in the recommended budget. The tax rate of 2.5% for residents, 1.25% for non-residents, and 1% for corporations is unchanged. The Administration's real assumed growth for income tax is a negative 1.29% of the projected collections for the current year of \$217.5 million. The \$217.5 million current year collection estimate represents a \$23.3 million reduction from 2008-09 estimated collections of \$240.8 million.
405200 405300	Wagering Tax Percentage Payment	Combined these two revenue accounts are decreasing by \$3.2 million, to a total of \$173.4 million. This decrease represents a negative 1.8% growth in the wagering tax revenues budget to budget.
422141 422142	State Revenue Sharing	The total of State Revenue Sharing revenues is \$233.3 million in the recommended budget. This is a decrease of \$41.9 million over the current year. A portion of the revenue (\$57.8 million) is funded constitutionally and fixed by formula. The other larger portion (\$175.6 million) is funded by state general appropriation statute and is also based on a formula. In the past the State has used reductions in payment of statutory revenue sharing to local governments to address State budget problems.

447555	Administration Fee	The administration fee revenue is decreasing by \$1.1 million, from \$7.8 million to \$6.7 million, a 14.1% decrease. This is the 1% administration fee that is included on property tax bills.
447555	Other Reimbursements	The estimated revenue is increasing by \$3.6 million, from \$2.6 million to \$6.7 million.
474100	Miscellaneous Receipts	The revenue account is increasing by \$6.0 million from \$0.1 million to \$6.1 million, a 6,000% increase.
00939	Supplemental Fees (GDRRA) 510325 – Transfer From Other Funds	This is a new revenue included in the recommended budget. The recommended amount is \$1.0 million.
06925	Temp Casino Site	This \$16.8 million revenue represents the municipal service fee the casinos pay annually. They are required to pay the greater of \$4 million or 1.25% of net collections. The \$120,000 decrease in collections represents less than a 1.0% decrease, budget to budget.
12949	POC Transaction	This represents a revenue account added in the 2009-10 budget as a result of the negotiations that resolved the interest rate SWAP termination event that took place in the 2008-09 fiscal year. This account is used to keep the budget in balance and to allow for both a lump sum payment appropriation and the allocation of the payment to all appropriations that contain salary accounts. See appropriation comments above.
12950	Detroit Windsor Tunnel – Securitization	These three revenues represented proposed securitization agreements for the Detroit Windsor Tunnel (\$100 million), Parking System (\$100 million) and Public Lighting (\$75 million) being investigated by the administration. None of the proposals came to fruition during the current year, and are not repeated in any amount in the 2010-11 Mayor's Recommended Budget.
12951	Parking System – Securitization	
12952	Public Lighting – Securitization	
13224	Restructuring Consolidation	The Mayor's Recommended Budget includes \$85.5 million for Restructuring and Consolidations to offset the Prior Year Deficit. The items that will generate this revenue/savings have not been specifically identified by the Administration, other than continuation of the recommendations from the Crisis Turnaround Team, Office of Restructuring and other process improvement efforts.

### Issues and Questions

1. Provide Council with a listing of the organizations and estimated fees included in the recommended budget for dues and memberships. Explain the city-wide benefits or

services provided for the expenditures in the current year and recommended budget for these organizations.

2. The recommended appropriation for the Charter Revision Commission is almost \$50,000 greater than the Departmental request, please explain what was added to the request. How many years will the Commission be in session? What is estimated to be the total cost of running the Commission? Has the City provided them space in vacant space that the City has under lease?
3. Update Council on the process of securing an operator for the Airport. While it has been promised for at least a few years that an operator (profitable) could be found, what are the two or three main obstacles to running the facility at a profit? How can these obstacles be overcome? At what point should the City consider ceasing operations, or closure of the facility? What about allowing the FAA or other Federal agency, State or County to take it over?
4. Explain for Council the current formula used for the Risk Management Fund claims analysis that supports the decrease in the payment to the Risk Management Fund. Highlight any change in the analysis or assumptions. What are the benefits and/or drawbacks of splitting the Risk Management Fund payment to each individual agency based on past claim payouts?
5. In the current budget the remaining amount of the appropriation for the Human Resource and Payroll project was to cover the GE Capital principal and interest payment for the project. Has this financing been completely repaid or has the payment been transferred to another appropriation? If so, what appropriation and when will the project be paid off? Provide the current status of the project and anticipated "go live" or date the project will go into production throughout the City. Provide a comparison of the total project budget to total project expenditures. What portion of the total cost of the project was provided by funds other than the general fund?
6. Concerning the appropriation and revenue for the Parking System Operating Advance, the budget presentation balances the amount. Over the last three to four years has the general fund subsidized the Parking System through these accounts? By year what has the subsidy amount and reimbursement been? If a subsidy to the Parking System has taken place in previous years, will the Parking System make up these amounts in future periods? When would this repayment be anticipated?
7. Explain the City-County Building Rent and Rehabilitation appropriation of \$210,148 in the recommended budget. Why isn't this cost allocated to specific departments as has been the practice for a number of years?
8. Provide the Council with schedules that support the debt payment amount for the Internal Service Fund – Vehicles. Include previously sold bond amounts and dates along with the required debt payments in the future. Also include any outstanding authorization for vehicle bond sales and anticipate sale dates.

9. Explain the decision to not include vehicle purchases in the recommended budget. How will this affect the normal replacement cycle for vehicles? Wasn't one of the purposes of the vehicle fund to smooth out the cost of the fleet? If so, does this decision represent a short-term savings with future increases in costs? How will this affect the maintenance of vehicle operation, especially with the recommended reduction in fleet management positions?
10. What is the payment schedule for the 800 Megahertz payments? When will the project be completely paid off?
11. With the operation of the Detroit Institute of Arts being the responsibility of the Founder's Society for a number of years, explain the need to continue the subsidy instituted in the 2009-10 budget at this time. What specifically will the subsidy support at the DIA?
12. Explain the status of the audit that was conducted on personal property tax assessments. Relate the audit results to the recommendation on prior year personal property tax collections remaining the same in the current year and recommended budget. What will the implementation of e-filing for personal property taxes have on collection of prior year personal property tax collections?
13. Explain the 37.5% reduction in the collection of prior years' real property tax estimated revenue in the recommended budget. Does this indicate that the available amount to collect is decreasing, or is it a reduction in actual collections? What does this reduction indicate in relationship to the County of Wayne taking over the collection of delinquent real property tax effective March 2004?
14. What would be the required steps to be taken if the City wanted to restore the Municipal Income Tax rates to the previous levels of 3% for residents, 1.5% for non-residents, and 2% for corporations? Could this type of restoration of rates be linked to the fiscal stabilization bonds with the proceeds of the rate restoration dedicated to the repayment of the fiscal stabilization bonds?
15. Explain for Council the source of the following revenue accounts and the changes in recommendation from current year: Administration Fee \$1.1 million decrease, Other Reimbursements \$3.6 million increase and Miscellaneous Receipts \$6.0 million increase.
16. A new revenue in the amount of \$1.0 million, identified as a Supplemental Fee – Greater Detroit Resource Recovery Authority is included in the recommendation. Identify the rationale for the City to collect this revenue from GDRRA.
17. Can the Administration provide additional details on the \$85.5 million restructuring revenue included in the budget? If not, when will specific details be forthcoming? If specific detailed plans are not identified and implemented early in the fiscal year, what is the back up plan of the Administration to address the accumulated deficit and prevent increasing the accumulated deficit?

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